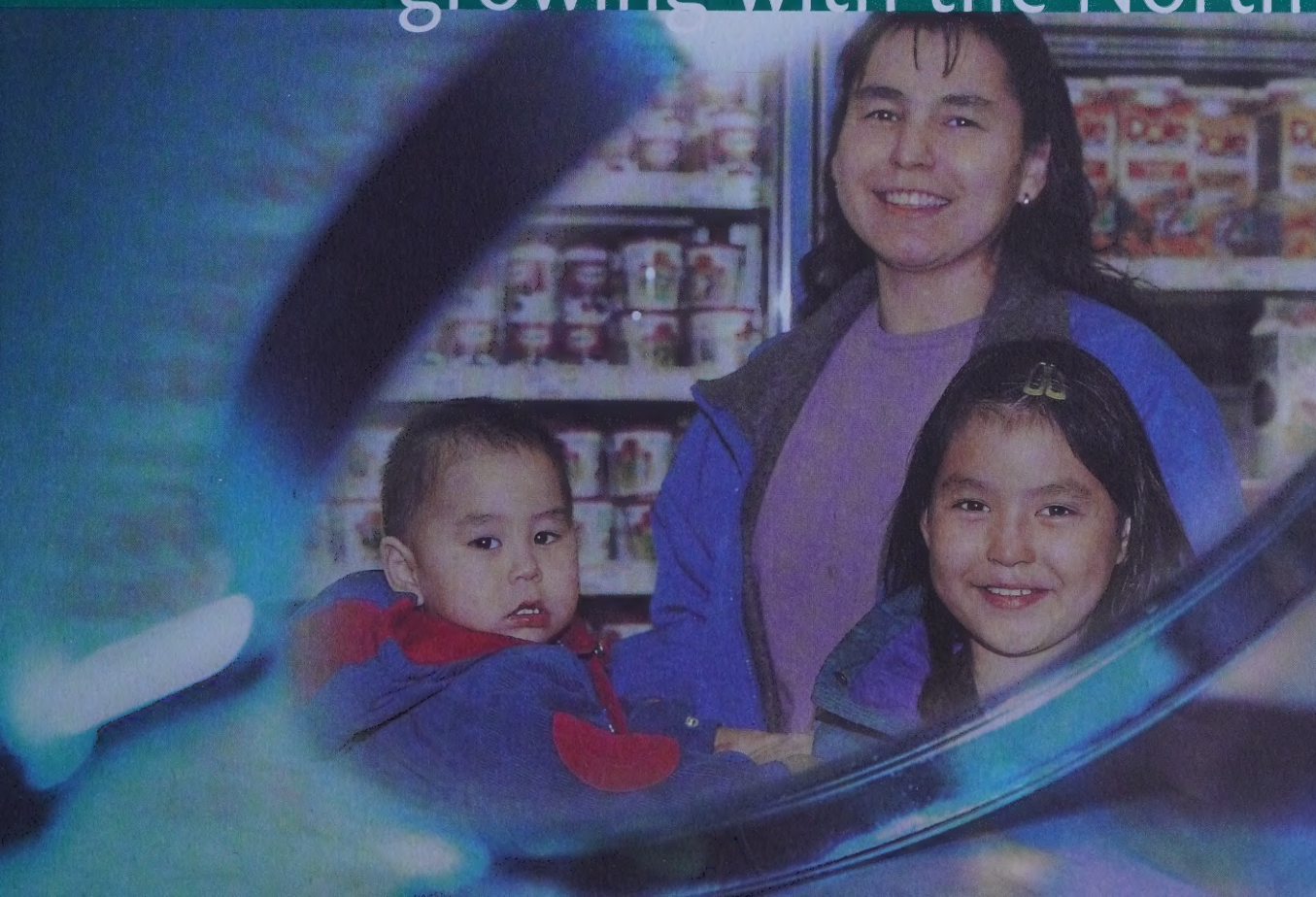




## NORTH WEST COMPANY FUND

1997 ANNUAL REPORT

*A sharper focus on*  
growing with the North





## OUR MISSION

NWC is the leading provider of food and everyday products and services to remote communities across northern Canada and Alaska. Our purpose is to create superior long-term investor value by enhancing our value to our customers, our employees, and the communities we serve.

THE NORTH WEST COMPANY

# serving remote communities





## FINANCIAL HIGHLIGHTS

University of Alberta  
1-18 Business Building  
Edmonton, Alberta T6G 2R6

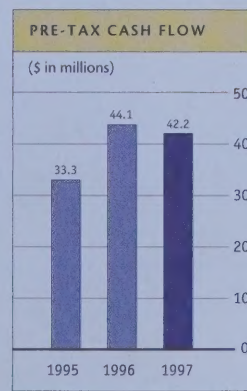
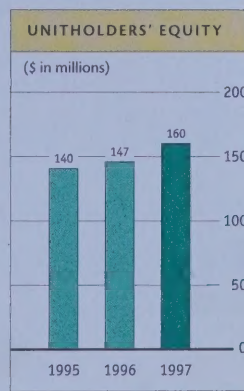
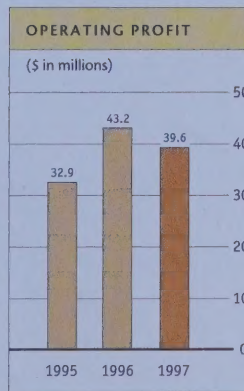
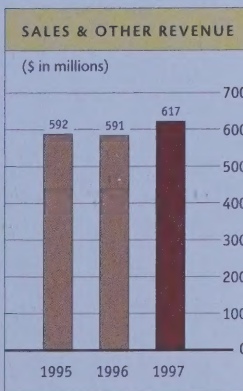
(in thousands of Canadian dollars)	53 weeks ended January 31, 1998	52 weeks ended January 25, 1997	52 weeks ended January 27, 1996
<b>RESULTS FOR THE YEAR</b>			
Sales and other revenue	\$ 616,710	\$ 590,583	\$ 592,034
Operating profit before provision for loss on disposition	39,587	43,208	32,860
Net earnings (loss)	21,037	17,858	(5,172)
Pre-tax cash flow	42,244	44,094	33,321
<b>FINANCIAL POSITION</b>			
Total assets	\$ 425,136	\$ 383,736	\$ 375,947
Total debt	201,408	175,027	178,275
Total equity	160,160	147,353	139,953
<b>PER UNIT/SHARE</b>			
Fully diluted earnings for the year			
before provision for loss on disposition	\$ 1.40	\$ 1.18	\$ 0.68
Fully diluted earnings (loss) for the year	1.40	1.18	(0.32)
Pre-tax cash flow	2.82	2.92	2.08
Cash distributions/dividends paid during the year	0.60	0.40	0.40
Equity	10.68	9.82	9.02
Average units/shares outstanding (# in 000's)	15,000	15,095	16,040
Units/shares outstanding at year-end (# in 000's)	15,000	15,000	15,519

# 1997 highlights

## FINANCIAL RATIOS

Debt to equity	1.26 : 1	1.19 : 1	1.27 : 1
Return on net assets *	11.7%	13.4%	9.8%
Return on average equity before provision	13.8%	12.7%	7.0%

\* Operating profit as a percent of average net assets employed.







## OUR VISION ←

Our vision is to be the most successful small market retailer in North America, providing superior returns to our investors, and being recognized by our customers as their first shopping choice, by our employees as the best place to work, and by our communities as a supportive local business.



## A year can make a tremendous difference.

In the past year, we made innovative changes to our corporate structure – creating the North West Company Fund (NWF) – which has delivered tremendous benefits to investors. Even more significant, we developed a new vision and strategic plan to sharpen our focus and drive our business forward over the next three years. In 1998, we will implement many new initiatives across the Company as we put key elements of our plan into place. Our new strategic direction is so important we have made it the focus of this year's report.

But first, it is important to outline our operational and financial performance in 1997. The year was highlighted by the value that was created for unitholders as a result of our new fund structure, by the continuing turnaround of our Alaska operations, and by another solid performance in our Canadian food business.

### STRUCTURING BETTER RETURNS FOR INVESTORS

Following approval for the North West Company Fund structure, distributions almost doubled – to \$0.395 per unit in the remainder of 1997 compared to dividend payments of \$0.20 in the last half of 1996.

In 1998, quarterly cash distributions will rise to \$0.25 per unit, and a fifth distribution of \$0.25 is expected to be made in units of the Fund. This will increase distributed income by \$0.85 per unit or \$12.8 million, compared to our pre-fund structure in 1996.

One of the most attractive features of our new structure is that it allows us to create and transfer additional value directly to our investors without impairing NWF's ability to nurture its underlying business, The North West Company (NWC). We continue to reinvest 65% to 75% of our pre-tax cash flow into NWC's operating activities.

### STRONG OPERATING PERFORMANCE

Consolidated earnings increased 17.8% to \$21.0 million, or \$1.40 per unit. The increase was largely due to a reduction in income taxes payable, as a result of our new structure. NWF earnings before interest, taxes, depreciation and amortization (EBITDA) declined slightly to \$57.1 million from \$59.4 million the year before.

Canadian revenues increased 5% to \$498.0 million but operating profits fell short of plan largely due to non-recurring expenses and development costs which should begin to show a payback this year. Food sales and gross margin contribution both generated gains of more than 5%, while general merchandise sales strengthened considerably in the last six months after a slow first half. General merchandise margins remained under pressure.

Alaska Commercial Company's (AC) operating profit increased to \$1.6 million from \$191,000 and operating cash flow rose to \$3.6 million from \$2.2 million. AC's food merchandise groups gained market share and improved their contribution significantly while performance as a whole benefited from further expense reductions.

Edward Kennedy, President and Chief Executive Officer of The North West Company with Mary Jane Kakepetum in the Northern store's produce department in Sandy Lake, Ontario. Food sales in Canada increased by 6% during 1997.

# opportunities



**INVESTOR VALUES**

To our investors, we want to be known for delivering total returns that create economic value and achieve top quartile performance measured against other publicly-traded companies in North America.

*We believe that our most important performance objective is creating superior investor value. We don't consider this to be a zero-sum game where our investors prosper at the expense of other stakeholders. On the contrary, creating investor value requires a total commitment to delivering benefits to our customers in the most efficient way, hiring and retaining a motivated workforce and being a supportive corporate citizen within each community we serve.*

**CUSTOMER VALUES**

To our customers, we want to be known for providing a superior in-stock selection of food and everyday needs at the quality level they want, supported by accessible credit services, a broad range of direct order products and services and caring relationships... all at a fair, competitive price.

*We believe that our goal of market leadership starts by creating an intense, continuing focus on understanding our customers needs, combined with a genuine passion for being the best at meeting them. Only by reaching and keeping this level of customer service and intimacy can we create value by working more effectively on their behalf, seeking out the products and services they need to enhance their everyday lives.*

# a focus on service

**EMPLOYEE VALUES**

To our employees, we want to be known for fostering a spirit of enterprise and reward for performance within an open and challenging work environment characterized by respect and encouragement for each other's contribution as individuals, team players and leaders.

*We believe that the NWC vision can only be achieved by motivated, talented employees. We are starting from a strong position, building on the exceptional commitment of our people. By adhering to these values, we will create a new, shared goal of personal growth, reward and satisfaction – a shared goal that we will reach by making the NWC vision happen.*

**COMMUNITY VALUES**

To our communities, we want to be known for actively supporting local events and initiatives and for playing a constructive role in community development.

*We believe we have a unique responsibility within the communities we serve. We are typically the largest of a limited number of local shopping alternatives. How well we serve the community has an impact that is far greater than what most other retailers could ever imagine. We readily accept this role as a link to our northern merchant heritage and as a source of pride and purpose in our work.*



**A renewed vision.** To understand where NWC is headed, and why; it's important to understand our vision, values, and beliefs – these will define and shape our actions into the next century.

Our vision is inspired by the unique realities of our marketplace, the special abilities of our people and an enterprising spirit of success.

Our customers live in communities that are closer than ever before to the rest of the world – and getting closer, thanks to communications technology. At the same time, these communities are still physically very small and distant – a few hundred or thousand people living hundreds or thousands of miles away from the rest of North America. The North West Company has a unique identity and one that is also a measure in contrasts. Our past is defined by a 328-year legacy as a vast, influential northern merchant enterprise and, at the same time, by a simple tradition of duty and service to the people of the North.

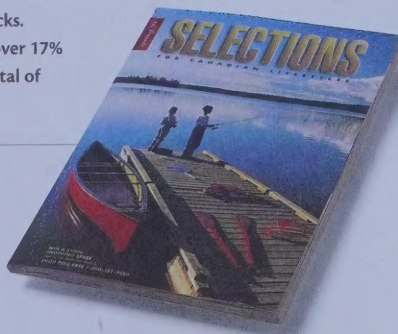
More than ever, our future depends on our ability to meet the changing shopping needs of our customers and to build on the commitment of our people to make a positive difference to the communities we serve.

## and results

Sharon Cudney of Sandy Lake and granddaughter Sheena take a break from jigsaw puzzling to place an order from our Spring Selections catalogue. Over 3,000 products are offered to customers in the remote North in English, French, Greenlandic and Danish catalogues.

Products range from \$12,000 outboard marine engines to \$2 packs of nylon guitar picks.

Selection catalogue sales increased over 17% for the second year in a row to a total of \$19.9 million in 1997.







the potential to grow

"Half of our customers are under the age of 23. Their average age is a full 12 years below the Canadian average, and the overall population growth rate is more than twice the Canadian norm."



**Our future is promising.** Our challenge lies in generating growth and strong returns in markets where we already enjoy a relatively high share. Fortunately, the North is not a mature market and we see some very compelling opportunities:

**1. Our existing core business markets have exceptional demographic appeal.**

Half of our customers are under the age of 23, their average age is a full 12 years below the Canadian average and the overall population growth rate is more than twice the Canadian norm.

**2. The local retail infrastructure remains underdeveloped** compared to the over-stored condition of urban retailing. NWC's major store investments over the past eight years have pre-empted competitive entry in key regional locations and will enable us to grow sales with lower capital investment in the future.

**3. We have potential to recapture market share** that has been lost to outshopping and changing spending patterns. There is ample room to increase our food and basic general merchandise sales, downsize or shift underperforming categories to our direct sales channel and expand into new local shopping categories.

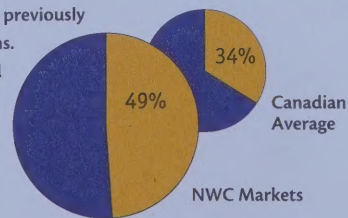
**4. There is potential for major productivity improvements.** With new merchandise and financial system platforms largely installed, we expect to reduce in-store inventories beginning in the second half of 1998 while improving our in-stock position. Over the next three years, we expect to achieve further efficiencies through a more disciplined and focused cross-functional approach to managing our entire supply chain.

A young family returns from early morning shopping at the AC Value Center in Dillingham, Alaska. In 1997, food sales accounted for 76% of AC's total revenue, showing an increase of 4.8% as market share continued to grow.

and excel



Our customers in the North are young and growing, compared to most southern retail markets. Dramatically increased access to "southern" media through communications technology, such as satellite TV and the internet, creates demand for brand-name products, consumer goods, and luxuries previously unknown in remote locations. Thanks to its customer and supply chain knowledge, NWC is well positioned to fill these needs.



Population Under 25 Years of Age (%)

Source: Statistics Canada Census 1996





## sharpening our vision

“ Our goal is to capture a higher share of spending on products and services which are most valued by customers and can earn the greatest return.”



## Our focus – following a clear strategic path.

NWC will build value in its Canadian operations through the disciplined execution of three key strategies:

### *Strategy 1* Create a streamlined, efficient core business.

In 1998, our first priority is to achieve a sharper core business focus. This will enable us to improve productivity, drive down costs and build a platform for profitable growth in the future. We expect to divest or restructure businesses that do not fit our remote market positioning or our performance targets.

Within our core business, we will fix or eliminate activities that do not create sufficient value. We plan to invest in our merchandise supply chain activities (plan/buy/move/sell) to create a stronger cross-functional process and we will begin to implement key features of our new merchandise and financial systems, like automated store merchandise replenishment and EDI. Together, we believe these initiatives will enable us to substantially improve inventory productivity and our in-stock position while reducing cycle times and costs.

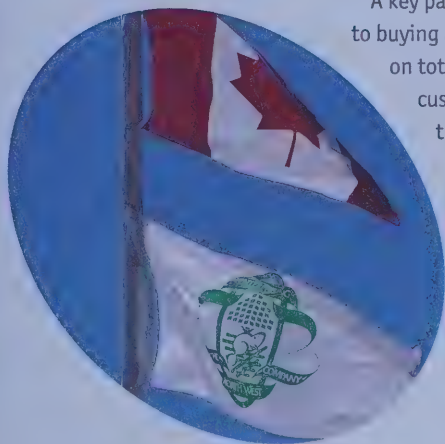
### *Strategy 2* Create a value-driven customer and merchandise focus.

Within NWC's redefined core business, our first goal is to capture a higher share of spending on products and services which are most valued by our customers and can earn the greatest return. This means further enhancement of our food and basic general merchandise assortments and less in-store emphasis on fashion apparel and big-ticket durables, which represent about 10% of our sales base. These latter merchandise groups will be downsized within our in-store offering and shifted to our direct sales channel.

A key part of our merchandise focus is pursuing a true cross-functional approach to buying and selling merchandise. At NWC, this is happening through an emphasis on total profitability, measured by how effective we are at understanding our customer, buying to meet their needs, moving merchandise to our stores and then completing the sale at store level.

Teddy Berens stocks freezer shelves at the Northern store in Berens River, Manitoba.

# to build value







## fostering leadership

"We like dealing with Allen.  
He's become like a grandson.  
If he stays here much longer,  
he'll be one of our own..."

Elizabeth Mamakeesic, Member of the Sandy Lake Advisory Council

"I find satisfaction in helping  
people. We go the distance  
on their behalf to get them  
what they want."

Allen Feeney, **Northern** Store Manager, Sandy Lake, Ontario



### *Strategy 3* Create a superior store and direct sales operations capability.

We plan to increase our focus on front line activities that clearly add value within our stores. Less time will be spent on supply chain, marketing and administration tasks. These will be eliminated or effectively shifted, through technology and new processes, to our merchandise teams and other head office resources, leaving more time to invest in merchandise presentation, sales and service, community relations and staff development.

The changing role of retail operations challenges us to make responsive store support and high-caliber store leadership an even greater priority. We expect to accomplish this by eliminating the distraction of non-core businesses and activities, by continuing to leverage communications technology and by fostering a more customer-intimate and store-sensitive understanding among our non-store employees.

On the direct sales side, we are pleased with the continued sales growth of our Selections catalogue but we are not satisfied with the bottom line results. We are committed to creating a direct sales strategy in 1998 that will enable us to continue to expand this business profitably, while responding to the opportunity presented by our customers' spending shift to the selection and price advantages offered by this channel.

Sandy Lake elders and Advisory Council members Ahab Rae, Elizabeth Mamakeesic, and Sarah Fiddler ham it up with Northern manager Allen Feeney.

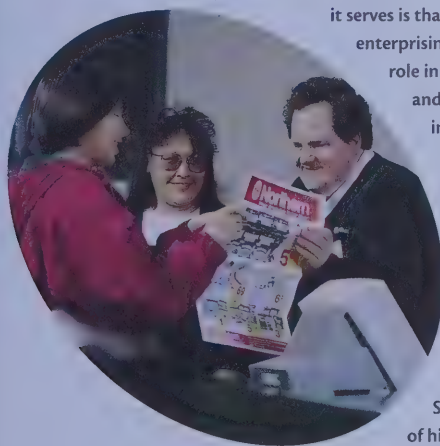
## n everything we do

The North West Company's history of harmonious relationships with the communities it serves is thanks largely to the quality of our store managers – highly capable, enterprising individuals like Allen Feeney. Managers play a complex, multi-faceted role in the community, which includes establishing strong links with local elders and leaders, acting as a credit manager (and sometimes the largest employer) in the community, and understanding what goods and services local shoppers want.

Allen, originally from Bath, New Brunswick, began his career with the Company in 1980 as a Trainee in Cat Lake. He then transferred to several stores in Northern Ontario before being promoted to store manager at Severn, followed by stints at Webequie, Sandy Bay, and Pikangikum. Allen and his wife Brenda, originally from Sandy Lake, moved back to that community in 1986. They have three sons – Christopher, Steven, and Timothy.

A highlight for Allen has been overseeing the expansion of the Sandy Lake Northern store. Allen takes great pride in serving the needs of his customers. In his words, "I find satisfaction in helping people.

We feel a responsibility to our customers – we go the distance on their behalf to get them what they want."



Lisa Meekis and Maybelline Fiddler of Sandy Lake check out the weekly specials with Allen Feeney.





## values and spirit

### SPIRITS IN THE SUN

"The beauty of the Arizona desert was the backdrop for the first annual *Spirits in the Sun* Canadian Indigenous Arts Festival held from February 6 to 8 in Scottsdale. More than 80 artists and vendors, 85 entertainers, 40 galleries and 1,000 pieces of Aboriginal art were on display at the extravaganza.

Aboriginal artists and vendors were set up at an open-air pavilion near the Scottsdale Civic Centre, while gallery exhibitors from across Canada were showing off their impressive collections inside the ballroom of a nearby hotel.

Artists and vendors from across Canada offered a variety of goods, including paintings, birchbark-biting crafts, stone sculptures, clothing, jewelry, furniture and music."

*Windspeaker, Scottsdale, Arizona*





**What to expect from 1998.** The pace of change will accelerate at NWC as our key strategies are put in action. This year will be a transition year. We will make decisions on which non-strategic activities and investments will be divested and which will be re-positioned. We will also implement programs in our core business to sharpen our focus on our customers, merchandise assortments and operational capabilities.

We expect a modest improvement in the northern economy as government spending finally starts to rebound and as infrastructure investment continues in preparation for the inauguration of the new eastern Arctic territory of Nunavut. Our customers will likely continue to be very price conscious, seeking more value from their shopping alternatives.

#### PEOPLE OF THE NORTH WEST COMPANY

Bill Douglas retired April 30, 1998, after a 36-year career in retailing, including seven years with NWC as Vice-President, Marketing and, during the last year, as Vice-President, Retail Operations. Bill's strong insight into all facets of our business enabled him to make a very effective contribution in both of these key roles. Carl McKay was appointed Vice-President, Retail Sales and Operations on March 27, 1998 after a 25-year career

Aboriginal artists demonstrated their unique creativity to the delight of thousands of enthusiastic visitors.

## people drive our success

The North West Company was a proud co-organizer of *Spirits in the Sun*, Canada's first Indigenous Arts Festival in Scottsdale, Arizona. Stated goals included: creating new awareness for Canadian Inuit, Métis and First Nations peoples, culture, arts and crafts; developing new markets and clientele for galleries and craft vendors; and bringing together collectors from around the world to meet and do business with North America's fine arts galleries and craft vendors of Canadian Indigenous art.

with NWC in senior store operations, merchandising and human resource positions. Dallas Thorsteinson was appointed Executive Vice-President responsible for Marketing and Logistics, effective April 20, 1998. Dallas brings over 15 years of progressive merchandising experience in packaged goods, supermarket and convenience store retailing.

At the end of the day, only people can make a strategy and a vision come alive. Our success in the past has been the direct result of the values and enterprising commitment of our employees. It remains the same today. We are confident that this spirit and energy can be focused on our vision of being the best small market retailer in North America.



Edward Kennedy, President and Chief Executive Officer

















Ian Sutherland, Chairman






April 16, 1998





# THE NORTH WEST COMPANY

 <b>Northern</b>	145 Northern Stores	
 <b>Quick</b>	6 Quickstop Convenience Stores	
 <b>North</b>	4 NorthMarts	
 <b>THE NORTH WEST COMPANY TRADING POST</b>	6 Trading Posts	
 <b>AC Value Center</b>	23 AC Value Centers	
 <b>AC</b>	5 AC Express Centers	
 <b>Northern Rental Purchase</b>	1 Northern Rental Purchase	

<b>Winnipeg</b>	Gibraltar House (Corporate Head Office) Retail Service Centre Northcan Distributors Odd Lots Discount Centre Motorized Division Selections Catalogue Operations Crescent Multi Foods	
<b>Anchorage</b>	Alaska Commercial Company (Head Office) Frontier Expeditors Distribution Centre	
<b>Edmonton</b>	Edmonton Regional Office Edmonton Consolidation Centre	
<b>Toronto</b>	Inuit Art Marketing Service Toronto Consolidation Centre	
<b>Montreal</b>	Montreal Consolidation Centre	

fostering enterprise across the N

LABRADOR SEA

BAFFIN BAY

HUDSON BAY

TORONTO

MONTREAL

WINNIPEG





A 37,000 sq. ft. NorthMart conversion opened in Happy Valley, Labrador in October 1997, followed by a stand-alone Quickstop and NWC's first Northern Rental Purchase store.



An exceptionally warm winter in the North delayed freeze-up and the opening of winter roads. An exceptional group of Sanyo's Alouette 3000 snowblowers kept the roads open and the stores open.



The Northern store in Berens River, Manitoba expanded its grocery area to 2,000 sq. ft. in March 1997 and has expanded its food and deli departments.



Customers make a selection from the range of ATVs available at the AC Value Center in Aniak, Alaska. ATVs, snowmobiles and trailers give the biggest ticket item sold in the North. The growing transportation needs in the North.



Customers in Alaska are presented with a wide range of food choices to satisfy all tastes. Additionally, AC's food merchandise program continues to grow market share.

# North since 1668





## REPORT CARDS ON KEY OPERATING INITIATIVES

At The North West Company, we believe that setting and sharing goals is an important part of the business process. Measurement and accountability are key tools of our success. As part of this approach, we have outlined specific annual operating objectives, and reported on our progress against those goals, in each of the past four annual reports. This year, the schedule for completion and approval of our new strategic plan has meant we could not finalize specific goals in time for publication of the report. We intend to resume this practice in next year's report.

### CANADIAN REPORT CARD FOR 1997

#### GOAL

1. Grow comparable store sales by 2.8% in foods and 1.3% in general merchandise.
2. Improve gross margin rates by 0.3%.
3. Increase inventory turns by 6.0%.
4. Increase operating margin of 20 under-performing stores by 20%.
5. Achieve satisfactory profitability level for *NorthMart*.
6. Successfully open at least two stand-alone *QuickStop* locations.
7. Through "People First," increase Aboriginal representation in store management by 33%.
8. Implement the *Retek*™ Merchandise Management System and process changes fully for general merchandise and complete the design for food.

#### RESULT

1. Comparable store sales grew by 2.5% in foods, and 2.1% in general merchandise on a 52-week basis.
2. Rate unchanged from last year.
3. Inventory turns in stores went from 3.91 to 3.95, which is an increase of 1.0%.
4. Operating margin of the 20 under-performing stores increased by 13.3%.
5. Satisfactory profitability level for *NorthMart* was not achieved.
6. Two stand-alone *Quickstop* locations were successfully opened in Happy Valley and Red Lake.
7. Aboriginal management in stores increased from 91 to 128, representing a 41% improvement. Aboriginal staff now represents 21% of the total store management team.
8. *Retek*™ and process changes for general merchandise were implemented February 23, 1998. *Retek*™ related functional design for food was completed in March 1998.

### ALASKAN REPORT CARD FOR 1997

#### GOAL

1. Achieve a 3.1% increase in comparable food sales and 2.6% increase in comparable general merchandise sales.
2. Improve gross margin rates by 1%.
3. Reduce store labour expenses by \$400,000.
4. Realize \$800,000 in payroll and related overhead expense savings from 1996 year-end reductions.
5. Complete investment plans for three largest markets.
6. Achieve 10% increase in perishables gross margin contribution.
7. Complete POS rollout.
8. Launch management development program.
9. Reduce inventory shrink by targeted amounts.

#### RESULT

1. A 4.8% increase in food sales was achieved. Sales decreased 12.6% in general merchandise.
2. Gross margin rate improved by 0.5%.
3. Store labour expenses were reduced by \$400,000.
4. Anchorage office expenses were reduced by \$740,000.
5. Investment plans for Barrow and Bethel were completed. Plans for Kodiak are in progress.
6. Achieved a 5% increase in perishables gross margin contribution.
7. POS rollout was completed.
8. Management development program was developed. Full implementation was deferred to 1998.
9. Targeted shrink reduction achieved.



### WHAT IS THE STRUCTURE?

On March 27, 1997, the shareholders of NWC exchanged their shares for units in NWF. The Fund has held a combination of common shares, preferred shares and subordinated notes issued by NWC. Distributions to unitholders from the Fund are paid from interest received on the subordinated notes. The changes in the structure of the NWF's investment in NWC to date are shown in the following table.

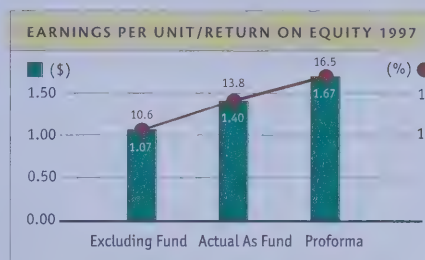
INVESTMENT IN NWC (\$ in millions)	March 27, 1997	February 23, 1998
Subordinated notes	\$ 85.5	\$172.0
Preferred shares	86.5	—
Common shares	9.8	9.8
Total	\$181.8	\$181.8

The Fund initially held \$181.8 million in subordinated notes, preferred shares and common stocks of NWC. On July 1, 1997, \$38.5 million in preferred shares were converted to subordinated notes while the remaining \$48.0 million in preferred shares were converted on February 23, 1998.

### IMPROVED RETURNS TO UNITHOLDERS

#### Earnings Per Unit and Return on Equity

The tax saving per unit resulting from the deduction of interest to the Fund was \$0.33 in 1997 and will be \$0.60 in 1998. This saving improved the earnings per unit by 31% in 1997. Assuming the present capital structure had been in place for all of 1997, proforma earnings per unit would have been 56% higher than earnings per share under the former corporate structure. The return on equity of 13.8% in 1997 was 31% better than the return would have been in the corporate structure. Assuming the current capital structure had been in place for all of 1997, the proforma return on equity would have been 16.5%.



# enhancing unitholder value

These conversions will maximize the benefit of the trust structure by reducing taxes in NWC and allowing increased distributions by the Fund.

The increases in the amount of the subordinated notes will increase the taxable distributions to unitholders to approximately \$1.25 in 1998 and \$1.40 in 1999, after Fund expenses.

### DISTRIBUTION POLICY

The Directors of NWC and the Trustees of NWF have adopted a policy to distribute 25% to 35% of the prior year's pre-tax cash flow to unitholders. Based on this policy, and NWC's goal to reduce its debt-to-equity ratio from 1.25:1 at the end of 1997 to 1:1 by the end of 1998, the final \$0.25 of the 1998 payout will be made in NWF units. In early 1999, the Directors and Trustees will reassess the level of cash distributions based on the achievement of NWC's targeted debt-to-equity ratio, its debt rating, the capital requirements for expansion and/or acquisitions, and the Company's business prospects. The pre-tax equivalent payout, as a percentage of pre-tax cash flow, is illustrated in the following table:

	1993	1994	1995	1996	1997
Pre-tax cash flow/unit (\$)	2.59	2.34	2.08	2.92	2.82
Pre-tax equivalent distribution/dividend (\$)	0.63	0.68	0.70	0.70	0.75
Payout (%)	24.4	29.1	33.7	24.0	26.5

### IMPACT ON UNIT VALUE

The units of NWF appreciated 27% in fiscal 1997 compared to an increase in the TSE300 index of 10%. The new Fund structure was undoubtedly a factor in this superior performance.



### NORTH WEST COMPANY FUND

On March 27, 1997, the plan of arrangement became effective converting shares in The North West Company (NWC) into units of the North West Company Fund (NWF), a mutual fund trust which assumed ownership of NWC.

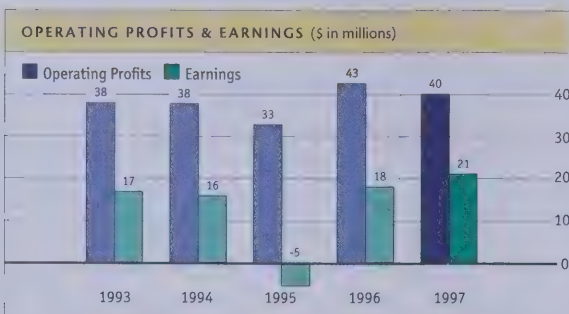
On March 27, 1997, NWC issued \$85.5 million in subordinate notes to the NWF at an interest rate of 12.5%. The subordinate notes were increased to \$124.0 million on July 1, 1997 and to \$172.0 million on February 23, 1998. Interest is paid by NWC to the NWF on a semi-annual basis on March 15 and September 15. Interest on the notes is tax deductible by NWC. NWF makes distributions of interest income it receives to the unitholders on a quarterly basis after deducting fund expenses. Under the terms of an agreement with the holders of NWC's senior debt, the subordinated notes can be increased to a maximum of \$175.0 million.

The Trustees of NWF have adopted a guideline of distributing between 25% and 35% of the previous year's pre-tax cash flow. Unitholders received an initial distribution of \$0.175 per unit on September 15, 1997 and \$0.22 per unit on December 15, 1997. The quarterly distribution was increased to \$0.25 per unit effective March 15, 1998 and is expected to be maintained at that level for 1998. A fifth distribution for 1998, payable in January 1999, of approximately \$0.25 per unit, is expected to be made by a distribution of units of the Fund.

### CONSOLIDATED OPERATIONS OVERVIEW

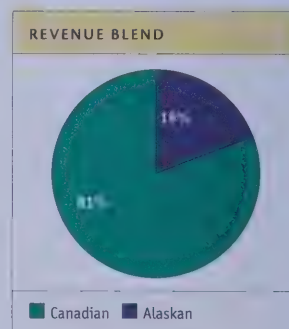
#### Revenue and Earnings

NWF reported consolidated earnings of \$21.0 million for 1997, increasing 17.8% or \$3.2 million to \$1.40 per unit. This compares to \$17.9 million or \$1.18 per share last year. Operating profits at \$39.6 million declined by 8.4% in 1997 compared to record operating profits of \$43.2 million in 1996. Revenues for the 53 weeks ending January 31, 1998 increased 4.4% to \$617 million from revenues of \$591 million for the 52 weeks ending January 25, 1997.



The major highlights of 1997 included:

- NWF was established to enable it to pay unitholders out of pre-tax income without reducing the funds available to NWC for capital spending or debt repayment.
- Earnings of NWF at \$21.0 million increased \$3.2 million or 17.8% over the earnings reported by NWC in 1996.
- NWF made distributions to unitholders of \$0.395 during the second half of 1997 compared to \$0.20 in dividends over the corresponding period in 1996. The trustees increased the quarterly distributions to \$0.25 effective for the March 15, 1998 payment.
- Alaska Commercial Company (AC) improved its performance, posting an operating profit of \$1,634,000 compared to \$191,000 last year, expressed in Canadian dollars.
- **Northern** and **AC Value Centers**, NWC's largest banners, both achieved food sales increases of 4.8%.
- **Northern** opened two new stores in new markets. In addition, three replacement stores were built, one store underwent major renovations and re-fixturing while decor upgrade projects were completed in four stores. **AC** opened two new stores in new markets, closed one store, and renovated four stores during the year.
- Cash flow at \$36.0 million increased from \$30.6 million last year due to reduced taxes and higher amortization provisions.
- Canadian operations accounted for 81% of total revenue while Alaskan operations contributed 19%.



### CANADIAN OPERATIONS

Canadian retail stores' sales of \$486 million increased 4.4% from last year (2.5% on a comparable store 52-week basis) while operating profit decreased 7.3% to \$38.3 million, compared to \$41.3 million in 1996. Comparable food sales for the 52 weeks increased by 2.5% which was less than the industry average increase of 5.4% as published by Statistics Canada. Meat and dry grocery categories reported the strongest sales increases. Food sales accounted for 63% of total revenues.

General merchandise sales strengthened gradually during the year and were strongest in the fourth quarter with a 4.1% increase in comparable stores. Selections catalogue sales increased 17.2% to \$19.9 million as it continued to expand merchandise assortments to complement **Northern's** in-store offering. Comparable general merchandise sales on a 52-week basis increased 2.1% compared to the Canadian average increase in Department Store Type Merchandise of 6.5% reported by Statistics Canada.



Sales strengthened during the year despite overall weaker economic conditions compared to southern Canada. Sales were strongest in the toys and home entertainment departments with increases over 25%. Sales of motorized vehicles were off 15% due to poor sales of snowmobiles as a result of the late arrival of winter and a shifting pattern of spending towards enclosed four wheel drive vehicles. Other motorized sales such as ATVs, boats and motors were poor due to the discretionary nature of these expenditures which are dependent on seasonal income. Construction projects, fighting forest fires, and tourism provided below average levels of income during the year. Overall, sales in the hardlines categories increased by 4%.

Softlines categories were particularly affected by unseasonable weather conditions and increased out-shopping competition. Total softline sales were up 0.4% led by men's outerwear which was up 36%, and men's footwear which increased 8%. Children's wear sales were up 0.7% while women's wear sales had the weakest performance, down 6%.

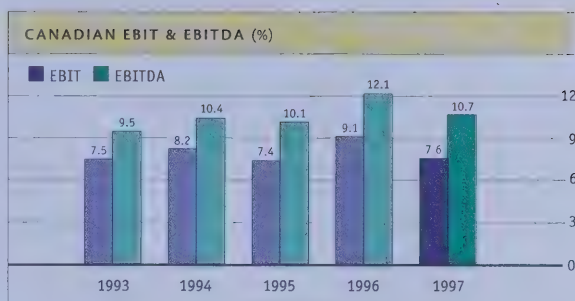
Sales per selling square foot were \$841 for food (\$851 in 1996) and \$255 for general merchandise (\$252 in 1996). Store inventory turnover improved to 3.95 turns from 3.91 turns in 1996, due to reprofiling and greater emphasis on clearing aged merchandise, particularly in hardlines.

Gross margins from Canadian retail operations were 35.4% in 1997, unchanged from 1996. The rate dropped in general merchandise as a result of lower initial markups in many categories due to increased price competition and higher markdowns required to clear seasonal apparel. Strong sales in low margin categories such as electronic games, satellite dishes, TVs and VCRs, and slightly higher shrinkage also contributed to lower margins. These factors were partially offset by reduced product costs in food achieved by increased direct purchases and volume incentive allowances.

Store expenses increased 8.4% for the year to a rate of 27.2% compared to 26.2% last year due to several factors. Higher northern allowances were paid to compensate staff for less favourable personal tax treatment of this benefit. Compensation levels were increased to attract and retain more Aboriginal employees into management positions with the goal of reducing outside hire costs and to support positive community and customer relations. Debt losses increased by \$1.1 million in 1997 as there were fewer recoveries than in 1996. Promotional costs increased due to additional advertising and the expansion of the "Points North" loyalty reward program. Canadian operations had 4,004 employees at year-end compared to 3,725 last year. Staff increases reflect the higher utilization of regular part time and casual staff in 1997.

Operating profits (EBIT) at \$38.3 million or 7.9% of sales were down \$3.0 million or 7.3% from 1996 due to the 1.0 point increase in the expense rate. Operating profit before amortization (EBITDA) decreased to 10.7% from 12.1% in 1996.

Capital expenditures in Canadian retail operations totaled \$22.4 million in 1997 versus \$16.1 million in 1996. Expenditures of \$7.3 million were directed to the replacement or major renovation of existing stores and the acquisition of two new stores,



and \$7.3 million was spent on minor renovations, equipment replacements and support facilities. Investments in systems were \$7.8 million and were primarily directed to the purchase and installation of a new client server based merchandise management system, and a financial management system, both of which went live in February 1998, and the upgrading of NWC's technology infrastructure. Capital spending in 1998 in Canada will be reduced to approximately \$14 million with major components including the acquisition of two new stores in new markets and the replacement of two older stores in existing markets. Systems expenditures will focus on the completion of the remaining modules of the merchandise management system and financial management system in the Canadian operations and the rollout to AC operations.

Canadian retail operations added 36,900 square feet of selling space in 1997, an increase of 3.6%. These additions were split between 7,500 square feet in new locations and 29,400 square feet from the expansion of existing stores to strengthen our position in key regional communities. The majority of new space was allocated to the food selling area. Two smaller **Northern** stores were opened in new markets during 1997. In September 1997, the Company completed the conversion of a **Northern** store in Happy Valley, Labrador to the *NorthMart* format combining a remodeled general merchandise store with a new 13,100 sq.ft. food store.

### Diversified Business

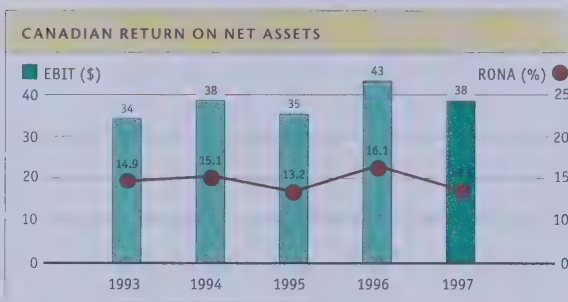
Revenues in our Diversified Business group, which in 1997 included seven Fur and Heritage Marketing stores, the Inuit Art Marketing Service (IAMS) and Crescent Multi Foods, reported sales of \$11.9 million compared to \$8.8 million in 1996 and an operating loss of \$765,000 versus an operating profit of \$1,009,000 in 1996.

IAMS sales increased by 9.3% due to strengthening demand, especially in export markets. Operating profits, however, were down almost \$1.1 million due to the *Spirits in the Sun* Indigenous Arts Festival organized by IAMS. This exhibition fell short of revenue expectations and cost significantly more than planned. Crescent Multi Foods, with sales of \$4.9 million, was acquired at the beginning of 1997 to provide a perishable distribution capability to NWC's Canadian stores and to service independent small food retailers. Crescent did not meet its plan in 1997 due to higher than expected expenses and a slower than planned conversion of stores to Crescent's programs.



The North West Company Trading Posts generated a 10.1% sales increase but poor gross margins resulted in a reduced contribution from this group. One branch was closed at the end of the year.

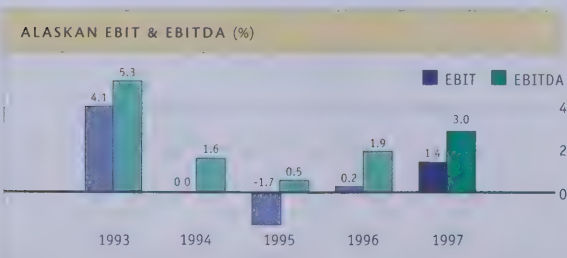
The operating profit (EBIT) results and return on net assets of Canadian operations are summarized below.



#### ALASKAN OPERATIONS (in U.S. dollars)

Alaska Commercial Company (AC) improved its profitability in 1997, delivering an operating profit of \$1,175,000 compared to \$140,000 in 1996. Sales were up 0.1% to \$85.3 million for the year. Food sales, which accounted for 76% of total revenue, increased 4.8% as AC continued to capture market share by improving its grocery assortments, and on the strength of its promotional activity and the quality of its perishable departments. General merchandise sales were down 12.6% from 1996, due to the deletion or downsizing of categories in favor of food and more basic non-food merchandise. General merchandise sales also suffered from merchandise planning and supply chain weaknesses that AC is now addressing. Very weak salmon prices had a negative impact on approximately 25% of AC's market during the second quarter. Gross margins improved 0.5 points to 31.2%, reflecting the strengthened controls adopted and the downsizing of low margin categories. AC's expense rate decreased from 30.5% to 29.8% due to expense reduction programs initiated during the year and in the fourth quarter of 1996. Inventories at \$15.0 million were \$1.5 million or 9.1% less than last year. Alaskan operations increased their staff count from 645 last year to 685 this year. Staff increases reflect the higher utilization of regular part time and casual staff in 1997.

The operating profit (EBIT) and operating profit before amortization (EBITDA) of Alaskan operations are summarized on the following chart.



AC also benefited from the transfer of support services to NWC's head office. The majority of responsibilities for support functions such as loss prevention, accounting, credit, systems, construction and store planning have been transferred to Winnipeg while maintaining strong management in Alaska to direct and co-ordinate these activities. These initiatives position AC to quickly take full advantage of the technology investments being made in Canadian operations to further improve operational efficiencies and returns.

Net capital expenditures in 1997 were \$3.4 million. Renovations were made to three large stores; one of which will not be completed until the second quarter of 1998. A fourth large store is being replaced and will also open in the second quarter of 1998. Two new stores were added in 1997 and two new small stores are planned for 1998. Capital spending in 1998 is expected to be approximately \$2.0 million and will be directed at completing large store projects, upgrading staff housing and systems hardware to support conversion to NWC's new merchandise and financial management systems by the first quarter of 1999.

At January 31, 1998, AC employed net assets of \$44.5 million compared to \$40.2 million in 1996.

#### LIQUIDITY AND CAPITAL RESOURCES

On a consolidated basis NWF had \$201.4 million in debt and \$160.2 million in equity at the end of the year with a debt-to-equity ratio of 1.26:1 versus 1.19:1 at January 25, 1997.

	1993	1994	1995	1996	1997
Debt	125	177	178	175	201
Equity	148	160	140	147	160
Debt/Equity	0.8:1	1.1:1	1.3:1	1.2:1	1.3:1

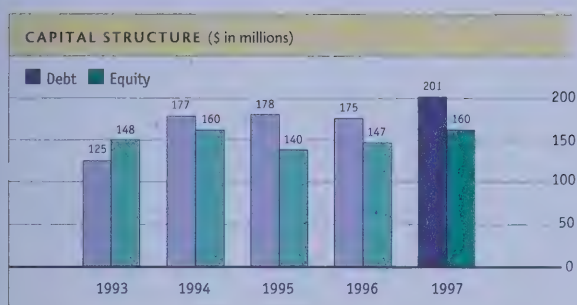
Cash flow at \$36.0 million improved by \$5.4 million or 17.7% over last year. Canadian operations increased inventories by \$7.2 million or 6.8% over last year. Alaskan operations decreased inventories by 9.1% primarily due to the reprofiling of assortments. Accounts receivable balances were unchanged from last year except for interim financing of \$10.4 million Canadian that was provided for the building of a new 34,300 square foot store. This store is owned by the village corporation and will be leased back upon completion. This transaction will be completed during the summer of 1998.

No new debt was issued or required in 1997. In addition to the \$112.0 million in secured bonds outstanding, NWC has \$85.5 million in secured operating lines of credit with banks in Canada and the United States of which \$66.3 million has been drawn at the end of the year.

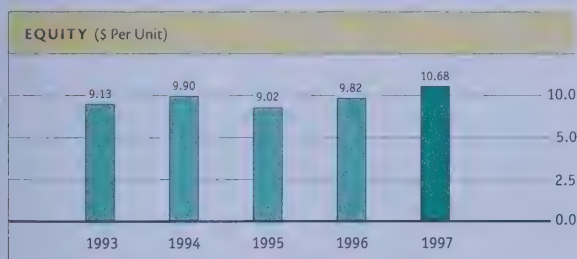
NWC converted a portion of its bond issue to U.S. dollars which serves to hedge foreign currency fluctuations on the majority of its U.S. assets.

NWF's capital structure is reflected in the chart shown.





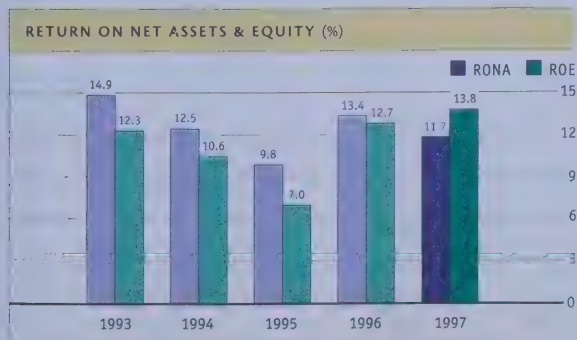
Book value of equity per unit at the end of the year was \$10.68, an increase of \$0.86 or 8.8% from last year.



The number of units outstanding at January 31, 1998 was 15,000,000 unchanged from January 25, 1997. The average number of units outstanding during the year was 15,000,000, compared to 15,095,277 shares before dilution in 1996.

On January 25, 1997, there were 338,300 options outstanding which had been issued to officers at exercise prices between \$7.50 and \$18.75, of which 152,347 were vested. These options were cancelled when the NWF was established on March 27, 1997. Officers were issued the after-tax equivalent number of unit appreciation rights with the same exercise prices and expiry dates. On January 31, 1998, there were 436,800 unit appreciation rights outstanding which have been issued to officers and management at exercise prices between \$7.50 and \$18.75, of which 244,125 had vested. Liabilities for these unit appreciation rights have been fully accrued at January 31, 1998.

NWF produced a return on net assets (RONA) of 11.7% in 1997 compared to 13.4% in 1996. Return on equity (ROE) of the NWF was 13.8% versus 12.7% in 1996.



### Capital Expenditures

1997 Capital expenditures, net of \$2.2 million in disposals, were \$26.7 million compared to \$21.3 million in 1996. Net capital spending on Canadian and Alaskan operations respectively amounted to \$22.0 million and \$4.7 million. Capital expenditures are expected to be about \$17 million in 1998, which will be funded out of operating cash flow.

### Interest Expense

Interest expense at \$12.3 million was 3.8% higher than in 1996 due to higher debt levels that were only partially offset by lower short term interest rates during the first part of the year. The average cost of debt decreased to 6.32% from 6.34% in 1996. The average debt outstanding during the year was \$194.5 million, 4.2% higher than the average debt of \$186.7 million in 1996. Consolidated debt at the end of January 1998 was \$201.4 million which was 15.1% higher than a year earlier while net assets employed increased 12.2% to \$361.6 million. Fixed rate financing was limited to \$40.0 million in swaps outstanding for an average of 1.5 years. NWC believes that the premium to fix interest rates during 1997 was excessive and therefore has chosen to finance the majority of credit facilities using short term instruments.

The interest coverage ratio was 3.22 times compared to 3.65 times last year.

	1993	1994	1995	1996	1997
Coverage ratio	4.48	3.66	2.63	3.65	3.22
EBIT \$	38.1	38.4	32.9	43.2	39.6
Interest \$	8.5	10.5	12.5	11.8	12.3

### Income Taxes

The provision for income taxes was \$6.3 million in 1997 compared to \$13.5 million in 1996. NWC's effective income tax rate was 42.0%, unchanged from last year. The reduction in taxes incurred for the year was due to the tax deductibility of interest expense in NWC for interest paid to NWF. Interest earned by NWF is not subject to tax as it is distributed to unitholders by way of distributions. On consolidation, the interest expense in NWC and interest earned in NWF are eliminated, however, the reduced tax obligation remains as NWF distributes its earnings to unitholders and does not incur tax. The tax benefit of U.S. losses carried forward of \$8.5 million U.S. has not been recognized in the financial statements.



## RISKS

NWC is exposed to the normal business risks of the retail marketplace. Our goods and services are not dependent on any one supplier nor is success based on any one store or cluster of stores. The remoteness and size of the markets serviced make it difficult for new market entrants to compete because of the high cost of entry and critical mass required. Southern-based retail competitors can access remote markets via catalogues, televised home shopping and electronic commerce, which provide alternatives to our customers primarily in the non-perishable categories. Our stores also compete with customers out-shopping in major regional centres when they leave their home communities for vacation, business or medical reasons. No new retail chains expanded into our markets in 1997 and none are expected in 1998, with the exception of the expected opening of Wal-Mart in Kodiak, our largest location in Alaska.

One of the main risks to NWC is the maintenance of healthy relationships with the customers we serve. NWC was the first Canadian corporation to publicly endorse the Aboriginal community's desire for self-government. We recognize the need to significantly increase the participation of Aboriginal people in all facets of NWC from the sales floor, through management ranks, to board representation and ownership participation. A key initiative is directed toward increasing the complement of Aboriginal people among new management recruits and heightening the awareness of management and staff of the cultural and social issues that affect Aboriginal people. During 1997, we hired or promoted 37 Aboriginal people into store management positions for a total of 128 or 21% of total store management.

The Alaskan markets generally have a more diversified, stronger economic base. Four locations, representing 30% of AC's sales, derive a significant amount of employment from commercial fishing which has not provided a stable source of income in recent years. Local competition from major retailers, although limited to 25% of AC's sales base, is more intense in Alaska than in NWC's Canadian markets.

## Year 2000 Risks

During the year, the Company conducted a review of all major systems and determined which ones required modification or replacement by the year 2000. The most critical systems support fundamental activities performed by staff to serve customers. These include merchandise planning, buying, and the moving and selling of goods. Other critical systems reviewed include financial, credit, human resources, communications and office productivity systems. Any system that is not year 2000 capable will be modified or replaced. Major merchandising and financial systems were previously scheduled for replacement and have already been addressed in conjunction with the year 2000 concerns. Both systems have been replaced in NWC and will be replaced in AC in early 1999. NWC expects that the cost of these replacement systems and modifications of other systems that are not year 2000 compliant to be \$12.2 million of which \$6.5 million has been spent to date.

Software development and hardware costs are capitalized and amortized over a five year period commencing when the application is put into production. Solutions are planned to be in place by mid 1999 to ensure there are no business disruptions as we move into the next millennium.

## Risks Related to Financing

In order to carry on its operating activities, NWC must arrange for appropriate financing from various financial institutions. NWC endeavours to achieve the following objectives when arranging financing for its operations:

- to maintain a debt to equity level which will continue to allow NWC access to capital markets while enabling NWC to generate acceptable returns for unitholders;
- to maintain a level of debt which is viewed as appropriate by the marketplace for a business engaged in the retail industry; and
- to use a variety of financial instruments which provide an appropriate mix of debt to ensure protection from adverse fluctuations in interest and foreign exchange rates, and provide a reasonable cost of capital and an adequate level of liquidity.

NWC has issued senior bonds in the amount of \$112 million and has also negotiated lines of credit with two Canadian banks and one bank in Alaska. Financial instruments have been used to fix a portion of NWC's debt while other instruments have been used to allow a portion of NWC's debt to float at attractive short term interest rates. NWC is subject to interest rate fluctuation on \$72 million of its bond proceeds and its bank debt. Management foresees no difficulty in maintaining these credit arrangements in 1998.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of North West Company Fund and The North West Company Inc. are responsible for the integrity of the accompanying financial statements and all other information in this annual report. The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada and include certain amounts that are based on the best estimates and judgment by management.

In order to meet its responsibility and ensure integrity of financial reporting, management maintains accounting systems and appropriate internal controls and an internal audit function designed to provide reasonable assurance that assets are safeguarded, transactions are authorized and recorded and that the financial records are reliable.

Final responsibility for the financial statements and their presentation to unitholders rests with the Trustees of the Fund and the Board of Directors of the Company. The Audit Committee of the Board, consisting of outside directors, meets periodically with management, Trustees and with the internal and external auditors to review the audit results, internal controls and accounting policies. The Audit Committee meets separately with management and the external auditors, Price Waterhouse, to review the financial statements and recommend approval by both the Trustees and the Board of Directors.

Price Waterhouse, an independent firm of auditors appointed by the unitholders, have completed their audit and submitted their report as follows.



Edward Kennedy  
President and Chief Executive Officer  
The North West Company Inc.



Gary V. Eggertson  
Chief Financial Officer  
North West Company Fund

March 13, 1998

## AUDITORS' REPORT



To the Unitholders of  
North West Company Fund

We have audited the consolidated balance sheets of North West Company Fund as at January 31, 1998 and The North West Company Inc. as at January 25, 1997 and the consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at January 31, 1998 and of the Company as at January 25, 1997 and the results of their operations and the changes in their financial position for the fiscal years then ended in accordance with generally accepted accounting principles.



Chartered Accountants  
Winnipeg, Canada

March 13, 1998



Comparative figures are those of The North West Company Inc. – see Note 1

January 31, 1998

January 25, 1997

**BALANCE SHEET** (in thousands of Canadian dollars)

**ASSETS**

Current assets

Cash	\$ 10,376	\$ 3,409
Accounts receivable	64,382	52,661
Income taxes recoverable	2,760	–
Inventories	134,425	127,409
Prepaid expenses	1,716	1,357

213,659 184,836

Capital assets (Note 3)

198,074 184,268

Other assets (Note 4)

13,403 14,632

\$ 425,136 \$ 383,736

**LIABILITIES**

Current liabilities

Bank advances and short-term notes (Note 5)	\$ 66,337	\$ 39,519
Accounts payable and accrued	54,466	49,672
Income taxes payable	–	3,114
Current portion of long-term debt	595	280

121,398 92,585

Long-term debt (Note 6)

134,476 135,228

Deferred income taxes

9,102 8,570

264,976 236,383

**EQUITY**

Capital (Note 8)

144,837 93,605

Retained earnings

14,430 53,550

Cumulative translation adjustment (Note 9)

893 198

160,160 147,353

\$ 425,136 \$ 383,736

Approved by the Trustees and Board



Trustee and Director



Director

## CONSOLIDATED FINANCIAL STATEMENTS

Comparative figures are those of The North West Company Inc. – see Note 1

53 weeks ended  
January 31, 1998

52 weeks ended  
January 25, 1997

<b>EARNINGS AND RETAINED EARNINGS</b> (in thousands of Canadian dollars)		
<b>SALES AND OTHER REVENUE</b>	<b>\$ 616,710</b>	<b>\$ 590,583</b>
Cost of sales, selling and administrative expenses	(559,612)	(531,226)
Operating profit before amortization (EBITDA)	57,098	59,357
Amortization	(17,511)	(16,149)
<b>OPERATING PROFIT (EBIT)</b>	<b>39,587</b>	<b>43,208</b>
Interest, including interest on long-term debt of \$8,856 (1996 \$9,565)	(12,298)	(11,843)
Earnings before income taxes (EBT)	27,289	31,365
Provision for income taxes including deferred of \$532 (1996 recovery of \$1,017) (Note 10)	(6,252)	(13,507)
<b>EARNINGS FOR THE YEAR</b>	<b>21,037</b>	<b>17,858</b>
Retained earnings, beginning of year	53,550	42,400
Distributions/Dividends	(7,425)	(6,031)
Conversion to Fund capital	(52,732)	–
Premium on shares purchased for cancellation	–	(677)
<b>RETAINED EARNINGS, END OF YEAR</b>	<b>\$ 14,430</b>	<b>\$ 53,550</b>
<b>EARNINGS PER UNIT/SHARE</b> (Note 11)	<b>\$ 1.40</b>	<b>\$ 1.18</b>



## CONSOLIDATED FINANCIAL STATEMENTS

Comparative figures are those of The North West Company Inc. – see Note 1

53 weeks ended  
January 31, 1998

52 weeks ended  
January 25, 1997

### CHANGES IN FINANCIAL POSITION (in thousands of Canadian dollars)

<b>CASH PROVIDED BY (USED IN)</b>		
<b>Operating Activities</b>		
Earnings for the year	\$ 21,037	\$ 17,858
Non-cash items		
Amortization	17,511	16,149
Deferred income taxes	532	(1,017)
Amortization of bond warrant proceeds and interest rate fixing payment (Note 6)	(1,960)	(2,035)
Gain on disposal of capital assets	(1,128)	(368)
Cash flow	35,992	30,587
Changes in non-cash working capital components	(14,677)	1,126
Operating activities	21,315	31,713
<b>Investing Activities</b>		
Purchase of capital assets	(28,818)	(22,994)
Proceeds from sale of capital assets	2,161	1,653
Other assets	10	(1,865)
Investing activities	(26,647)	(23,206)
<b>Financing Activities</b>		
Expenses of the arrangement	(1,500)	-
Purchase of shares for cancellation	-	(3,916)
Repayment of long-term debt	(328)	(5,728)
Financing activities	(1,828)	(9,644)
Distributions/Dividends	(8,925)	(6,094)
<b>CHANGES IN CASH POSITION</b>	<b>(16,085)</b>	<b>(7,231)</b>
Effect of currency translation adjustment	(3,766)	1,155
Cash position, beginning of year	(36,110)	(30,034)
<b>CASH POSITION, END OF YEAR</b>	<b>\$ (55,961)</b>	<b>\$ (36,110)</b>
<b>CASH POSITION IS COMPRISED OF</b>		
Cash	\$ 10,376	\$ 3,409
Bank advances and short-term notes	(66,337)	(39,519)
	\$ (55,961)	\$ (36,110)

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## JANUARY 31, 1998

Comparative figures are those of The North West Company Inc. – see Note 1

### 1. ORGANIZATION

The Board of Directors of The North West Company Inc. (NWC) approved a Plan of Arrangement on February 17, 1997 that was ratified by the shareholders at a special meeting held on March 27, 1997. Under the plan, the shareholders indirectly exchanged their existing common shares of NWC for units of the North West Company Fund (NWF).

The Fund is an unincorporated open-ended mutual fund trust, governed by the laws of the Province of Manitoba and the laws of Canada and created pursuant to a Declaration of Trust. The beneficiaries of the Fund (the “Unitholders”) are holders of trust units issued by the Fund (the “Trust Units”). The Fund is a limited purpose trust whose purpose is to invest in securities of its wholly owned subsidiary NWC, administer the assets and liabilities of NWF and make distributions to the unitholders all in accordance with the Declaration of Trust.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation and Comparative Amounts

The consolidated financial statements of the Fund include the amounts of its wholly owned subsidiary NWC and its subsidiaries, all of which are wholly owned.

The financial statements of the Fund have been prepared under the continuity of interests method of accounting. Under this method of accounting, the net assets of NWF, at the effective date of its formation, are valued at their historical cost as reported in the consolidated financial statements of NWC at that date. Retained earnings reported in respect of NWF represent the undistributed earnings of NWC.

These consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada. All significant intercompany amounts and transactions have been eliminated on consolidation.

#### Fiscal Year

The fiscal year ends on the last Saturday in January. Accordingly, the 1997 fiscal year ended January 31, 1998 (53 weeks) and the 1996 fiscal year ended January 25, 1997 (52 weeks). Approximately every five years an additional week of sales and expenses are included in the financial results to bring results back in line with the 52-week year.

#### Accounts Receivable

In accordance with recognized retail industry practice, accounts receivable classified as current assets include customer installment accounts of which a portion will not become due within one year. Accounts receivable also include short term financing provided for a construction project.

#### Inventories

Inventories are valued at the lower of cost and net realizable value less normal profit margins. The cost of inventories is determined primarily using the retail method of accounting.

#### Capital Assets

Capital assets are stated at cost less accumulated amortization. Amortization is provided using the straight-line method at rates which will fully amortize the assets over their estimated useful lives, as follows:

Buildings .....	2% - 5%
Leasehold improvements .....	5% - 20%
Computer equipment and software .....	20% - 33%
Fixtures and equipment.....	8%
Transportation equipment .....	8% - 20%

#### Other Assets

The investments in transportation companies are accounted for on the equity basis. Prepayments under lease agreements are being amortized over their respective lease terms. Deferred financing fees are being amortized over the terms of the loan agreements.

#### Income Taxes

The Fund is an inter vivos trust for income tax purposes. All income of the trust is distributed to unitholders and, as such, no income tax is payable by the trust. Provision for income taxes is recorded in NWC and its subsidiaries, at applicable statutory rates.

#### Pensions in Canada

Current service costs under NWC's pension plans are charged to operations as they accrue. The difference between the market value of pension fund assets and the actuarially determined present value of accrued pension obligations, as well as experience gains and losses, are amortized over the expected average remaining service life of the employee group. Actuarial valuations are calculated using the projected benefit method pro-rated on services, based on management's best estimate of future events.

#### Employee Savings Plan in Alaska

Alaska Commercial Company (AC) sponsors an employee savings plan covering substantially all employees. Under the terms of the plan, AC is obligated to make a 50% matching contribution up to 3% of eligible compensation, otherwise contributions are discretionary. Contributions to this plan are expensed as incurred.

#### Foreign Currency Translation

The accounts of Alaskan operations have been translated into Canadian dollars as follows: assets and liabilities, at the year-end exchange rate; revenues and expenses, at the average exchange rate for the period. Foreign exchange gains or losses arising from translation are deferred and included in a separate component of equity as a cumulative translation adjustment.



### 3. CAPITAL ASSETS (in thousands of Canadian dollars)

CAPITAL ASSETS	1997		1996	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 6,530	\$ —	\$ 6,592	\$ —
Buildings and leasehold improvements	166,055	39,196	151,634	31,232
Fixtures and equipment	118,818	54,133	102,657	45,383
	\$291,403	\$ 93,329	\$260,883	\$ 76,615
Net Book Value		\$198,074		\$184,268

### 4. OTHER ASSETS (in thousands of Canadian dollars)

OTHER ASSETS	1997		1996	
Investment in transportation companies	\$ 4,950		\$ 5,359	
Deferred pension costs	1,256		1,354	
Forward foreign exchange receivable	—		2,586	
Prepayments under lease agreements	949		1,019	
Long-term receivable	2,428		2,449	
Other*	3,820		1,865	
	\$ 13,403		\$ 14,632	

\*Other includes deferred financing fees and redeemable deposits with suppliers, and a mortgage receivable.

### 5. BANK ADVANCES AND SHORT-TERM NOTES

The Canadian operation has operating lines of credit of \$80 million. These lines of credit have been obtained by NWC on a secured basis as outlined in Note 6 (1996-unsecured).

The Alaskan operation has an operating line of credit of \$4 million U.S. secured by a guarantee of NWC.

### 6. LONG-TERM DEBT (in thousands of Canadian dollars)

LONG-TERM DEBT	1997		1996	
Bonds	\$112,000		\$112,000	
Deferred warrant proceeds	5,705		6,950	
Deferred interest rate fixing payments	1,167		1,956	
Forward foreign exchange payable	1,089		—	
U.S. real estate loans	7,591		7,168	
Manitoba Development Corporation	5,000		5,000	
U.S. obligation under capital lease	2,269		2,184	
Other long-term liabilities	250		250	
	135,071		135,508	
Less: Current portion	595		280	
	\$134,476		\$135,228	

On August 28, 1995, NWC issued \$112 million of senior bonds at a blended interest rate of 12.36%, due August 28, 2002. Interest is payable semi-annually on February 28 and August 28. These bonds were originally issued on an unsecured basis. On March 27, 1997, when the Plan of Arrangement creating NWF became effective, the following security was granted to senior bondholders and the banks providing NWC's Canadian operating lines of credit:

- General security agreement of NWC and its subsidiaries to each of the bondholders and banks;
- Debenture of NWC to the bondholders and banks and pledge thereof; and
- Pledge of securities of subsidiaries of NWC to the bondholders and banks.

Deferred warrant proceeds, less expenses, represent an amount received related to the issuance of the bonds and are being amortized to income over their term resulting in an effective interest rate of 9.56%.

The Company has the following financial arrangements in place including interest rate swap arrangements and a forward foreign exchange transaction with respect to the bonds.

1. The interest rate on \$20 million was fixed at 8.20% for a period of three years and the interest rate on \$20 million was fixed at 8.61% for a period of five years, both commencing on August 28, 1995.
2. A forward foreign exchange contract was entered into whereby \$42.828 million was effectively converted, on August 28, 1995, into \$30 million U.S. This transaction, which terminates on August 28, 2002, results in NWC paying U.S. dollars at a fixed rate and receiving Canadian dollars at the same fixed rate which is equal to the bond interest rate.
3. An interest rate swap was entered into for \$30.750 million U.S. whereby the U.S. dollar fixed rate debt effectively created in #2 was converted from fixed rate debt to floating rate debt. This swap terminates on August 28, 2002 and NWC pays a floating rate that is approximately 1.57% above the three month London Interbank Offered Rate (LIBOR).
4. An interest rate swap for \$32.122 million was entered into whereby these funds were converted from fixed rate debt to floating rate debt. This swap, which terminates on August 28, 2002, increases to \$52.122 million on August 28, 1998 when the fixed interest rate arrangements described in #1 expire. As a result of this swap, NWC pays a floating rate that is approximately 0.82% above the three month Canadian Banker's Acceptance rate.
5. An interest rate swap for \$21.2 million was entered into which commences on August 28, 2000 and terminates on August 28, 2002. This swap converts the interest rate on these funds from fixed rate to floating rate once the arrangements described in #1 expire. The floating rate NWC will pay will be the same as described in #4.

As a result of these arrangements, NWC is subject to interest rate fluctuations on \$72 million of its bond proceeds. Furthermore, NWC is subject to foreign currency fluctuations on the interest payments pertaining to the forward foreign exchange transaction and the U.S. swap.

The Alaska Industrial and Economic Development Export Authority (AIDEA) and two Alaskan-based banks have provided the U.S. real estate loans to assist in the financing of new stores. The remaining term of the loans is 12 years and the loans bear interest rates equivalent to 90 day commercial paper plus 2.6% for the AIDEA loans which represent 80% of the principal. The interest on the bank portion of these loans is approximately prime U.S. plus 0.75%. These loans are secured by the stores and related equipment.

The Manitoba Development Corporation loan of \$5 million provided to assist in the financing of the Winnipeg Retail Service Centre, bears interest at the rate charged by the Manitoba Government to Crown Corporations and is repayable in four equal annual payments commencing December 31, 2000 and ending December 31, 2003. The loan is secured by a first fixed charge against the leasehold title to the land, a first fixed charge against the building, and a first fixed charge on all present and future processing equipment connected with the project. Interest is forgiven if NWC attains agreed upon annual job creation targets. The Company anticipates that the agreed targets will be met, accordingly, no interest has been accrued.

The U.S. obligation under a capital lease is repayable in blended principal and interest payments of \$200,000 U.S. annually. The obligation will be fully repaid on October 31, 2013.

The bonds and related swap arrangements are the only financial instruments with fair values that vary significantly from carrying value. The fair value of the bonds as at January 31, 1998 was \$19.4 million (1996 - \$20.2 million) higher than the carrying value. However, this is offset by the fair value of \$19.4 million (1996 - \$20.2 million) in favor of NWC on the interest rate swap arrangements and the foreign exchange transaction with a credit worthy counterparty.

The Company's interest rate risk is directly attributed to its bank advances and short term notes as well as its long term debt.

## 7. UNIT APPRECIATION RIGHTS

On January 25, 1997, there were 338,300 NWC stock options outstanding which had been issued to officers at exercise prices between \$7.50 and \$18.75, of which 152,347 were vested. The Officers Stock Option plan was cancelled and replaced with a Unit Appreciation Rights (UAR) plan. Under the UAR plan, the holder is entitled to receive in cash the appreciation in units from the market price at the date of grant to the exercise date. Vesting is normally 20% per annum with expiry being six years from the date of the grant.

UAR's equal to 125% of the outstanding NWC stock options were issued in order to provide for the same equivalent after-tax benefit as existed under the cancelled stock option plan. These UAR's were issued at the same exercise price, vesting and expiry dates as existed for the cancelled stock option plan. Liability has been accrued in the financial statements for appreciation to January 31, 1998.

## 8. CAPITAL

On March 27, 1997, the effective date of the Plan of Arrangement, the existing capital of NWC and retained earnings to-date were converted as follows:

CAPITAL (in thousands of Canadian dollars)	
NWC capital (15,000,000 common shares)	\$ 93,605
Conversion of retained earnings:	
Retained earnings, beginning of year	53,550
Earnings prior to the arrangement	682
Dividends prior to the arrangement	(1,500)
	52,732
Expenses of the arrangement	(1,500)
Capital (15,000,000 units)	\$ 144,837

## 9. CUMULATIVE TRANSLATION ADJUSTMENT

The cumulative translation adjustment account represents the net changes due to exchange rate fluctuations in the equivalent Canadian dollar book values of the net investment in self-sustaining Alaskan operations since the date of acquisition. The change in this account as at January 31, 1998 is attributable to the weakening of the Canadian dollar relative to the U.S. dollar during the year.

## 10. INCOME TAXES

The Company's effective income tax rate is determined as follows:

	1997	1996
INCOME TAXES		
Combined income tax rate	42.2%	41.3%
Increase (decrease) in the income tax rate resulting from:		
Income not subject to tax	(1.3)	(0.1)
Tax on large corporations	1.1	0.8
Effective Canadian income tax rate	42.0%	42.0%
Adjustment for:		
Non recognition of tax benefit/ (tax liability) on U.S. losses/(income)	(0.8)	1.1
Tax deduction on interest to the Fund	(18.3)	—
Effective income tax rate	22.9%	43.1%

The Alaskan operation has operating loss carryovers of \$8.5 million U.S. to offset future income for tax purposes. These expire at the rate of \$2.0 million in 2009; \$4.2 million in 2010, \$2.1 million in 2011 and \$0.2 million in 2012. The future benefit of these loss carryovers has not been recorded in these financial statements.



**11. EARNINGS PER UNIT/SHARE**

Earnings per unit/share are based on the weighted average number of units/common shares outstanding during the year.

**12. SEGMENTED INFORMATION**

The Company operates predominantly within the retail industry in northern Canada and Alaska. The following information is presented for the two business segments of NWC:

		Canada	Alaska	Total
<b>SEGMENTED INFORMATION</b> (in thousands of Canadian dollars)				
Sales and other revenue	1997	\$497,997	\$118,713	\$616,710
	1996	474,465	116,118	590,583
Operating profit (EBIT)	1997	37,953	1,634	39,587
	1996	43,017	191	43,208
Operating profit before amortization (EBITDA)	1997	53,478	3,620	57,098
	1996	57,198	2,159	59,357
Identifiable assets	1997	296,389	65,179	361,568
	1996	268,447	53,933	322,380

**13. PENSIONS**

The Company maintains defined benefit pension plans for its Canadian employees. The plans provide pensions based on length of service and final average earnings. The accrued pension benefits and the market value of the plans' net assets were last determined by actuarial valuation as at January 1, 1995. At January 31, 1998, the plans' obligations are estimated to be \$35,505,000 (1997 \$32,844,000) and the net assets available to provide these benefits are estimated to be \$36,247,000 (1997 \$34,310,000).

**14. OPERATING LEASE COMMITMENTS**

The Company leases the land on which the Winnipeg Retail Service Centre is located from the City of Winnipeg for \$1 per year for 15 years subject to attaining agreed-upon job creation targets. The Company anticipates that the agreed targets will be met; accordingly, no additional lease payments have been accrued. The Company is obligated to buy the land for the greater of \$1,710,000 or fair market value at August 31, 2007.

The Company has future commitments under operating leases as follows:

<b>OPERATING LEASE COMMITMENTS</b> (in thousands of Canadian dollars)	
Years Ending January .....	Minimum Lease Payments
1999 .....	\$ 5,691
2000 .....	4,728
2001 .....	4,409
2002 .....	4,031
2003 .....	3,977
Thereafter .....	25,912

**15. COMPARATIVE AMOUNTS**

The comparative amounts have been reclassified to conform with the current year's presentation.

## SIX YEAR FINANCIAL SUMMARY

	1997	1996	1995	1994	1993	1992
<b>SIX YEAR FINANCIAL SUMMARY</b> (in thousands of Canadian dollars)						
<b>CONSOLIDATED STATEMENT OF EARNINGS</b>						
Sales and other revenue – Canadian Operations	\$ 497,997	\$474,465	\$470,306	\$470,890	\$451,014	\$447,604
Sales and other revenue – Alaskan Operations	118,713	116,118	121,728	115,352	97,665	25,106
Sales and other revenue – Total	616,710	590,583	592,034	586,242	548,679	472,710
Operating profit – Canadian Operations	37,953	43,017	34,916	38,383	34,017	32,577
Operating profit – Alaskan Operations	1,634	191	(2,056)	49	4,037	794
Operating profit – Total	39,587	43,208	32,860	38,432	38,054	33,371
Amortization – Canadian Operations	15,525	14,181	12,535	10,377	8,949	7,703
Amortization – Alaskan Operations	1,986	1,968	2,636	1,828	1,150	170
Amortization – Total Operations	17,511	16,149	15,171	12,205	10,099	7,873
Provision for loss on disposition of assets	–	–	16,129	–	–	–
Interest	12,298	11,843	12,548	10,472	8,457	9,157
Income taxes	6,252	13,507	9,355	11,721	12,435	9,507
Earnings (loss) from continuing operations	21,037	17,858	(5,172)	16,239	17,162	14,707
Gain (loss) on discontinued operations	–	–	–	–	–	247
Earnings (loss) for the year	21,037	17,858	(5,172)	16,239	17,162	14,954
Cash flow	35,992	30,587	23,966	26,173	29,283	29,410
Pre-tax cash flow	42,244	44,094	33,321	37,894	41,718	38,917
Distributions/Dividends	8,925	6,094	6,466	6,304	5,804	4,814
Capital expenditures	28,818	22,994	29,745	58,476	33,304	26,370
<b>CONSOLIDATED BALANCE SHEET</b>						
Current assets	\$ 213,659	\$184,836	\$185,932	\$204,253	\$182,735	\$174,486
Capital assets	198,074	184,268	179,651	179,822	145,255	122,024
Other assets	13,403	14,632	10,364	8,359	3,065	1,902
Current liabilities	121,398	92,585	83,671	135,591	83,788	87,142
Long-term debt	134,476	135,228	142,736	85,939	87,833	66,382
Deferred income taxes	9,102	8,570	9,587	10,930	11,782	9,542
Equity	160,160	147,353	139,953	159,974	147,652	135,346
<b>CONSOLIDATED PER UNIT/SHARE (\$)</b>						
Basic and fully diluted before provision for loss	\$ 1.40	\$ 1.18	\$ 0.68	\$ 1.00	\$ 1.06	\$ 1.05
Net earnings (loss) – fully diluted	1.40	1.18	(0.32)	1.00	1.06	1.05
Cash flow	2.40	2.03	1.49	1.62	1.82	2.06
Pre-tax cash flow	2.82	2.92	2.08	2.34	2.59	2.72
Distributions paid during the year	0.40	0.00	0.00	0.00	0.00	0.00
Pre-tax equivalent dividend	0.35	0.70	0.70	0.68	0.63	0.61
Dividends paid during the year	0.20	0.40	0.40	0.39	0.36	0.35
Equity at end of year	10.68	9.82	9.02	9.90	9.13	8.41
Market price at end of year	14.00	11.00	8.50	9.88	17.25	15.13
<b>STATISTICS AT YEAR END</b>						
Number of stores – Canadian	162	159	160	163	166	161
Number of stores – Alaska	28	27	28	28	20	20
Canadian sales per selling square foot	\$ 468	\$ 462	\$ 466	\$ 469	\$ 475	\$ 485
Alaskan sales per selling square foot	\$ 522	\$ 507	\$ 545	\$ 516	\$ 662	\$ 681
Canadian stores selling square feet (000's)	1,063	1,026	1,009	1,004	949	922
Alaskan stores selling square feet (000's)	227	229	223	223	148	148
Number of employees – Canada	4,004	3,725	3,779	3,728	3,788	3,649
Number of employees – Alaska	685	645	704	640	509	467
Average units/shares outstanding (000's)	15,000	15,095	16,040	16,164	16,130	14,307
Units/shares outstanding at end of year (000's)	15,000	15,000	15,519	16,164	16,164	16,097
<b>FINANCIAL RATIOS</b>						
Operating profit (%)	6.4	7.3	5.5	6.6	6.9	7.1
EBITDA (%)	9.3	10.1	8.1	8.6	8.8	8.7
Return on net assets (%)	11.7	13.4	9.8	12.5	14.9	16.2
Return on average equity before provision (%)	13.8	12.7	7.0	10.6	12.3	14.6
Pre-tax distribution as % of prior years pre-tax cash flow	25.5	33.7	29.9	26.4	23.2	22.8
Inventory turnover	3.0	3.0	2.8	2.8	3.1	3.1



## ANNUAL UNIT/SHARE PRICES &amp; VOLUMES (TSE)

Fiscal Year Ending	Volume	High	Low	Close
January 1998	6,194,629	14.800	10.250	14.000
January 1997	6,862,302	11.500	6.750	11.000
January 1996	5,872,872	11.750	8.000	8.500
January 1995	3,691,071	18.000	9.750	9.875
January 1994	7,351,617	20.250	14.750	17.250

All currency figures in this report are in Canadian dollars, unless otherwise noted.

**Transfer Agent and Registrar**

CIBC Mellon Trust Company  
Winnipeg, Toronto  
Toll-free: 1-800-387-0825  
www.cibcmellon.ca

**1998 Financial Calendar – Reporting Dates**

First Quarter June 4, 1998  
Second Quarter September 18, 1998  
Third Quarter December 10, 1998  
Fourth Quarter March 24, 1999

**Stock Exchange Listings**

The Toronto Stock Exchange  
The Winnipeg Stock Exchange

**North West Company Fund Distribution Dates**

June 15, 1998 (record date May 15, 1998)  
September 15, 1998 (record date August 15, 1998)  
December 15, 1998 (record date November 15, 1998)  
January 29, 1999 (record date December 29, 1998)  
March 15, 1999 (record date February 15, 1999)

**Stock Symbol**

NWF.UN

Number of units outstanding at fiscal year end: 15,000,000

Average number of units outstanding in 1997: 15,000,000

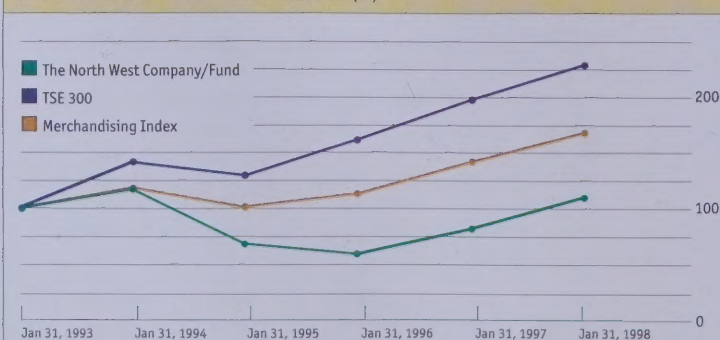
CUSIP number: 662906 10 6

# corporate information

**SPECIAL AND ANNUAL MEETING**

A Special and Annual Meeting of Unitholders of North West Company Fund will be held Thursday, June 4, 1998 at 11:30 am in the Muriel Richardson Auditorium, Winnipeg Art Gallery, 300 Memorial Boulevard, Winnipeg, Manitoba.

## RELATIVE STOCK PRICE PERFORMANCE (%)



This chart compares the relative performance of units of North West Company Fund, formerly shares of The North West Company, over the past five years, with the TSE 300 composite index and the merchandising sub-index of the TSE 300. The shares were converted on a one-for-one basis into units of the Fund effective March 27, 1997. The index incorporates the reinvestment of dividends and income distributions.



## CORPORATE INFORMATION

### THE NORTH WEST COMPANY INC.

Directors	Officers
Ian Sutherland <sup>1,5</sup> Chairman, The North West Company Inc.	Ian Sutherland Chairman of the Board
Edward S. Kennedy President & Chief Executive Officer	Edward S. Kennedy President & Chief Executive Officer
Lloyd I. Barber <sup>2,3,5</sup> President Emeritus, The University of Regina	Dallas V. Thorsteinson Executive Vice-President
Donald A. Beaumont <sup>1,3,4</sup> Corporate Director	Gary V. Eggertson Vice-President & Chief Financial Officer
Nellie Cournoyea <sup>4,5</sup> Chairperson & Chief Executive Officer, Inuvialuit Regional Corporation	Darryl P. Lemecha Vice-President, Information Services
Raymond Doré <sup>2,3</sup> Chairman & Chief Executive Officer, MCAP Financial Corporation	John R. McFerran Vice-President, Human Resources
Gary J. Lukassen <sup>1,3,4</sup> Executive Vice-President & Chief Financial Officer, Hudson's Bay Company	Carl A. McKay Vice-President Retail Sales & Operations
Stanley McKay <sup>2,4</sup> Director, Spiritual Care, Health Sciences Centre; Co-Director, Dr. Jessie Saulteaux Resource Centre	Richard D. Pope Treasurer & Corporate Secretary
Sterling J. McLeod <sup>3,5</sup> Consultant, Investors Group Inc.	Bradley R. Vollrath Vice-President, Distribution & Transportation
James G. Osborne <sup>1,2,5</sup> President, Mentor Capital Management Corporation	Committees of the Board
T. Iain Ronald <sup>1,2,4</sup> Corporate Director	1 Executive Committee
	2 Corporate Governance & Nominating Committee
	3 Audit Committee
	4 Human Resources & Compensation Committee
	5 Pension Committee

### NORTH WEST COMPANY FUND

Trustees	Officers
Ian Sutherland Chairman, The North West Company Inc.	Gary V. Eggertson Chief Financial Officer
Kevin R. Bolt Partner, Pitblado & Hoskin	Richard D. Pope Secretary-Treasurer
David G. Broadhurst Investment Banker First Marathon Securities Limited	

Principal Subsidiary Company:

### ALASKA COMMERCIAL COMPANY

Corporate Executive	
Edward S. Kennedy Chairman & Chief Executive Officer	R. Grant Hodge Vice-President, Large Store Operations
Gerald H. Bittner President	Rex A. Wilhelm Vice-President, Small Store Operations

## CORPORATE INFORMATION

### Auditors

Price Waterhouse, Winnipeg

### Bankers

The Toronto-Dominion Bank  
Bank of Montreal

### Registered Office

Gibraltar House  
77 Main Street  
Winnipeg, Manitoba  
Canada R3C 2R1  
(204) 943-0881  
Toll-free: 1-800-563-0002

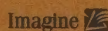
For additional copies of this  
report or for general information  
about the Fund or the Company,  
contact our Corporate Secretary.  
Dial direct: (204) 934-1665  
Fax: (204) 934-1455  
E-mail: [rpope@northwest.ca](mailto:rpope@northwest.ca)  
[www.northwest.ca](http://www.northwest.ca)

Throughout this annual report, photographs of customers and employees from the communities of Aniak, Berens River, Dillingham, Fort Smith, Happy Valley, Nome, Sandy Lake, Togiak, and Winnipeg are shown. The cover photo features Anna, Bradley and Lisa Larson, of Nome, Alaska.

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Design: Circle  
Editorial service: Blunn & Company Inc.  
Principal photography: Brian Gould, Paul Martens  
and François Proux, Ottawa (*Spirits of the Sun* pages 12 & 13)  
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The North West Company is recognized as a Caring Company by IMAGINE, an initiative of the Canadian Centre for Philanthropy. IMAGINE-designated companies have a policy of donating at least 1% of average pre-tax profits to charitable and nonprofit organizations.

At The North West Company, the commitment of employees goes far beyond merely donating funds. Employees devote their time and expertise, both on and off the job, to ensure the success of various community organizations and projects.



enterprising...

